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For information

Report to the United Nations Board of Auditors and the Advisory Committee on Administrative and Budgetary Questions

Summary

The present document reports on the steps taken or to be taken in response to the recommendations of the Board of Auditors and the Advisory Committee on Administrative and Budgetary Questions on the UNICEF accounts for the biennium 1996-1997. It also presents the status of implementation of the recommendations of the Board of Auditors on the UNICEF accounts for the biennium 1994-1995.

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* E/ICEF/1999/15.

I. Introduction

1. As an ongoing practice, UNICEF has been submitting a report to the General Assembly, through the Advisory Committee on Administrative and Budgetary Questions (ACABQ), to advise the Assembly as to the measures that the organization will take to implement the recommendations of the United Nations Board of Auditors.

2. The present report reviews the implementation by UNICEF of the recommendations of the Board of Auditors and the recommendations made by the ACABQ in their report A/53/513 on the UNICEF accounts for the biennium 1996-1997. The report also discusses the status of the implementation of the recommendations of the Board of Auditors on the accounts for the biennium 1994-1995.

3. The present document is submitted to the Board of Auditors and ACABQ for their evaluation.

II. Progress report on specific steps taken to implement the recommendations of the Board of Auditors on the UNICEF accounts for the biennium 1996-1997

4. This chapter describes the steps taken or to be taken by UNICEF in response to the recommendations of the Board of Auditors and ACABQ on its accounts for the biennium 1996-1997.

Recommendation No. 1

5. UNICEF should strengthen the oversight responsibilities on the review of liquidation statements in respect of cash assistance to Governments to ensure that they are properly supported with complete details.

Measures taken by UNICEF

6. In line with the recommendation of the Board of Auditors, and as mentioned in the previous UNICEF report (E/ICEF/1998/AB/L.9 dated 28 August 1998), the administration has taken a number of steps to strengthen oversight responsibilities and ensure that cash assistance liquidation statements are supported with sufficient documentation. The secretariat regularly and periodically monitors and reviews quarterly reports on cash assistance to Governments (CAGs) submitted by field offices. In these follow-ups, the secretariat strongly reminds field offices, where necessary, that as per Executive Directive CF/EXD/1996-017 dated 7 November 1996, the authority of field offices to extend CAGs will be suspended unless progress is made by the field offices on the liquidation of CAGs. At their level, regional offices have included the status of CAGs which are outstanding for more than nine months as a performance indicator of the field offices in the region. As a result of the intensive follow-up made in this area, the amounts of CAGs outstanding for more than nine months had been declining from 1996 to 1998. As of 31 December 1996, the figure was $20.2 million; as of 31 December 1997, $11.1 million; and as of 31 December 1998, $9.6 million.

7. UNICEF field offices provide continuous training, in both formal and informal settings, to government counterparts to explain the procedures and requirements pertaining to CAGs. The following are examples of activities undertaken by field offices to provide assistance to Governments to enhance their capacity to comply with the financial reporting and audit guidelines of UNICEF:

(a) Follow-up letters to the government ministry were supplemented by meetings with government counterparts at both central and peripheral levels to discuss CAG-related matters, which include submission of the required liquidation documents. In one field office, these activities were further supplemented by a proposed new management structure to the government ministry which focused on role clarification and decentralization and was intended to inject new dynamism in future programme activities as well as to help the ministry in complying with CAG requirements;

(b) Workshops on the management of CAGs, which covered the submission of documents for CAG liquidations, were conducted by UNICEF field offices for government counterparts;

(c) In one duty station, a field office contracted a team of accountants who toured the 39 districts to look into all aspects of the management of CAGs at that level. The team ensured the establishment of appropriate systems for the management of CAGs and trained district personnel to function using these systems;

(d) The guidelines for non-governmental organizations to receive CAGs from UNICEF, prepared by a field office, were shared with other field offices. These guidelines provided requirements for CAG liquidation and the submission of appropriate documents.

8. Further, UNICEF field offices always include discussion of the policies, procedures and requirements of CAGs in workshops and meetings for UNICEF staff. These are intended to make them better informed when they meet and follow up with staff of government ministries and agencies.

9. The administration also wishes to note that the Board of Auditors' recommendation in their audit of the 1994-1995 accounts specifically state that UNICEF should review the policy of recording CAGs for consistency with the definition of programme expenditure in UNICEF financial regulation and programme management procedures. UNICEF implemented this recommendation by conducting a review of accounting standards and related programme policies and procedures. The results of the review, communicated to the Board of Auditors, confirmed that UNICEF had been consistent since 1969 in its policy of recording cash assistance, but that a financial regulation adopted in 1988 to define "programme expenditure" was confusing and hard to interpret. UNICEF further advised the Board that to rectify this situation, it would evaluate and update as appropriate, for review by ACABQ and consideration by its Executive Board, the Financial Regulations generally and conduct a similar analysis with respect to its financial rules, policy manuals and instructions. The administration will submit the proposed changes to the Financial Regulations and Rules to the Executive Board, through ACABQ, at its September 1999 session.

10. UNICEF appreciates the ACABQ suggestion that it consult with other funds and programmes. UNICEF maintains close contact with other funds and programmes on many common issues of concern.

11. In relation to the above, the administration wishes to note, once more, the following points on CAGs:

(a) CAGs provide funds to Governments to support programme implementation

in countries with which UNICEF cooperates. The payment of funds by UNICEF to Governments is taken as an expenditure because the ownership of the funds transfers to the Government at the time the payment is made;

(b) After payment is made, it is the responsibility of UNICEF to assure that the funds were used for the purpose intended. UNICEF requires Governments to account for the utilization of this assistance through the submission of documentation from the Government substantiating that the activities took place and that the funds were used to carry out the activity.

Recommendation No. 2

12. UNICEF should expand and intensify its fund-raising activities, particularly in the area of general resources, and also strengthen the monitoring and control of expenditures.

Measures taken by UNICEF

13. In the previous report (E/ICEF/1998/AB/L.9), the administration noted that a resource mobilization strategy, which aims to assure increased core resources for UNICEF, obtain greater predictability of contributions to core resources and find a means of increasing burden-sharing among donors to UNICEF core resources, will be submitted to the UNICEF Executive Board. The Board approved the strategy in its January 1999 session (E/ICEF/1999/7 (Part I), decision 1999/8).

14. As also indicated in the previous report, the implementation of more efficient systems (i.e., the Programme Manager System and the Financial/Logistics System) in 1999 is designed to strengthen the monitoring and control of expenditures. The administration will assess the most efficient and effective use of and support provided by the new systems once all the systems are in place in 1999.

Recommendation No. 3

15. UNICEF should strengthen its efforts to obtain formal receipts from Governments as evidence that supplies and equipment have been received.

Measures taken by UNICEF

16. The field offices continue to carefully monitor government receipts of supplies. The secretariat will continue to provide assistance to field offices to strengthen their capacity to monitor government receipt of supplies as may be required.

Recommendation No. 4

17. UNICEF should seek retrospective approval for the four projects added without the Executive Board's authorization.

18. The administration wishes to note that at the first regular session of the UNICEF Executive Board in January 1999, the Board agreed that in approving the establishment of a reserve fund for field office accommodation and staff housing, it has never asked to be involved in the approval of specific projects. The Board also agreed that the Executive Director would continue to report to the Board on the status of the fund in statement VIII of the biennial report as has been done since 1990 (E/ICEF/1999/7 (Part I), paragraph 106).

19. In the light of this agreement by the UNICEF Executive Board, the administration deems it unnecessary to obtain retrospective approval for the additional projects.

Recommendation No. 5

20. UNICEF should ensure that all systems are tested for Year 2000 compliance with sufficient lead time to address any deficiencies.

Measures taken by UNICEF

21. In the previous report, the secretariat listed the major steps taken in relation to the Board of Auditor's recommendation to address the Year 2000 problem.

22. The administration has now scheduled a Y2K simulation exercise for June 1999 which will involve headquarters and selected regional and field offices.

Recommendation No. 6

23. The administration should ensure that recruitment of consultants fully complies with established rules and procedures.

Measures taken by UNICEF

24. In response to the Board of Auditors' recommendation, and with due consideration to ACABQ comments in the Secretary-General's report A/53/513, the administration has issued an addendum, dated 20 November 1998, to the existing Administrative Instruction on the "Use of Special Service Agreements" (SSAs) (CF/AI/1991-11 dated 23 December 1991). The addendum describes what should be done to ensure the following: (a) that selection of consultants and contractors is on a competitive basis; (b) that local rosters of qualified and pre-screened candidates for various kinds of work normally undertaken in a year are established and maintained; (c) that offices see headquarters' approval on cases requiring such approval; (d) that consultants do not commence work until the contract is signed by UNICEF and the consultant; (e) that evaluations of the work completed is prepared before payment is made; (f) that fees paid have a valid basis, i.e., the complexity for the work required; and (g) that SSAs are adequately monitored and that all documents related thereto are properly filed.

25. The addendum to the Administrative Instruction also provides that heads of offices are accountable when their staff fail to observe the rules regarding the use of SSAs, and that headquarters will revoke the delegation of authority to issue SSAs for those offices which fail to comply with the policies governing the use of SSAs.

26. The administration is also in the process of reviewing chapter 6 of the "Human Resources Manual" which deals with temporary assistance, including SSAs, to further develop and/or refine relevant policies and guidelines on competitive selection, condition of service and administration of SSAs.

Recommendations No. 7

27. In order to improve its financial performance, UNICEF Greeting Card and related Operations (GCO) should develop new marketing, advocacy and sales promotional strategies in order to increase the volume of its product sales and also increase its fund-raising.

Measures taken by UNICEF

28. The restructuring of the Private Sector Division, previously GCO, is now in place. The collective impact of its brand management strategy, its focus on key markets and a harmonized product mix, and communication strategy will continue to contribute significant incremental funds for UNICEF programmes.

Recommendation No. 8

29. The administration should establish a more frequent interval for the transfer of sales proceeds to UNICEF by the National Committees to improve the recovery rates of sales proceeds.

Measures taken by UNICEF

30. The administration continues to encourage and pursue the early transmittal of proceeds from National Committees. Requirements in this regard will be included in a revised Recognition Agreement which is currently under consideration.

Recommendation No. 9

31. The administration should ensure that all National Committees for UNICEF comply with the cash accounting reporting requirements.

Measures taken by UNICEF

32. As mentioned in the previous report, the administration issued revised guidelines in December 1997 to further clarify reporting procedures and ensure increased uniformity and transparency.

Recommendation No. 10

33. The administration should recover a total of $1.45 million not accounted for by five National Committees of GCO (ibid).

Measures taken by UNICEF

34. As noted in the previous report, the administration has reviewed the transactions which gave rise to the $1.45 million referred to by the Board of Auditors. The amount represents support funds provided to the National Committees which are not intended to be recovered. The National Committees have submitted their reports confirming utilization of the funds, and the records pertaining to these have now been reconciled.

Recommendation No. 11

35. The administration should take appropriate steps to establish responsibility with a view to recovering the loss incurred by UNICEF as a result of fraudulently recording transactions in a field office in the amount of $445,000.

Measures taken by UNICEF

36. The administration, under the supervision of the Office of Internal Audit, and in conjunction with an international public accounting firm, undertook a comprehensive

investigation of the case cited by the Board of Auditors which involved the loss of greeting card assets due to falsification of records. The administration obtained three legal opinions which recommended against pursuing action because of the low likelihood that there would be any financial recovery. The administration is taking appropriate and prudent action to prevent such misappropriation of assets in the future. The steps taken have included disciplinary action and non-renewal of several employment contracts, and the transfer of greeting card activities to a reputable third party.

Comments by the Advisory Committee on Administrative and Budgetary Questions

37. ACABQ indicated in its report A/53/513 that the Committee finds unacceptable, the refusal of UNICEF to implement the Board of Auditor's recommendation for the organization to obtain copies of the agreements on the common premises contracts and the related architects' certificates from the United Nations Development Programme (UNDP) which would provide detailed information on the costs, items and levels of the projects for more effective monitoring.

38. The administration did implement the Board's recommendation to the best of its ability. The administration asked UNDP many times for documentation substantiating the cost over-runs. UNDP was unable to provide this detailed information for reasons that became evident during the course of their own recent investigation. However, the administration is confident that in view of the new standards and methodologies developed by the UNDG sub-group on Common Premises and Services, the circumstances that contributed to these kinds of cost over-runs have been eliminated.

39. ACABQ likewise took note of UNICEF compliance with the United Nations accounting standards and accounting for contributions-in-kind.

40. The administration wishes to take note of the specific provision of the United Nations accounting standards which pertains to contributions-in-kind, which states that "An organization may choose to recognize these contributions on the face of the statements or disclose them as a Note." The administration believes that it has complied with this provision of the standards.

III. Progress report regarding the status of implementation of the recommendations of the Board of Auditors on the UNICEF accounts for the biennium 1994-1995

41. After its final audit of the accounts for the biennium 1996-1997, the Board of Auditors noted the implementation of the recommendations included in its report on the audit of the accounts for the biennium 1994-1995.

42. The Board noted the implementation of its recommendation [11(b)] pertaining to the establishment of a reserve for its doubtful contributions receivable to ensure an accurate disclosure of its realizable assets and recommendation [11(g)] pertaining to the need for reviewing the procedures for allocating general resources to country programmes so as to enhance comparability of data, eligibility for assistance and the determination of cut-off and exit criteria. Nevertheless, the Board will continue to monitor the adequacy of the reserve and will review the new procedures for the allocation of general resources in future audits.

43. The Board likewise noted the improvement in the liquidity position of UNICEF which was the subject of the Board's recommendation [11(c)] regarding the need for a reversal of the deliberate strategy of setting expenditure levels higher than income to address the declining liquidity of UNICEF. However, the Board indicated that the performance in this area needs further improvement and will keep this matter under review in its future audits.

44. The Board also positively noted the numerous actions taken by the secretariat to implement the following:

(a) Recommendation [11(d)] on the strengthening of the operations of internal control systems in field offices through prompt and effective investigation of indications of mismanagement;

(b) Recommendation [11(e)] pertaining to the need to improve responsiveness to internal audit findings and recommendations. The Board will continue to monitor this issue in future audits;

(c) Recommendation [11(f)] on the need to further improve the accuracy of UNICEF income projections for unfunded supplementary programmes through more realistic budgeting and fund-raising strategies;

(d) Recommendation [11(h)] regarding the need to undertake collaborative studies in selected programme sectors to determine the level of achievement of the decade goals, sustainability of programmes and national capacity-building;

(e) Recommendation [11(k)] requesting the administration to take further measures to improve sales forecasting and to reduce over-ordering of products in order to keep unsold stocks to the minimum.

45. While the Board of Auditors did not require further action on the above recommendations, the Board indicated that it would continue to monitor and review the areas covered in future audits.

46. The Board also noted the implementation of the following recommendations related to the budget:

(a) Recommendation [11(i)]: Instead of using the exchange rates available at specific periods of time as the basis for forecasting budgetary requirements, UNICEF should consider adopting an appropriate averaging method to obtain more accurate projections;

(b) Recommendation [11(j)]: In the design of the integrated budget system, a clear link should be established between administrative costs and the costs of the country programme to achieve proper balance in resource allocation.

47. The Board of Auditors indicated that in its future audits, it will review the effect of the new currency adjustment policy formulated under the harmonized budget format and will monitor actual budgetary performance based on the principle of linking administrative costs to costs of country programmes which has been established under the integrated budgeting system.

Recommendation No. 11(a)

48. The policy of recording cash assistance to Governments as programme expenditure at the time the funds are advanced should be reviewed for consistency with the definition of programme expenditure in UNICEF financial regulations and programme management procedures.

Measures taken by UNICEF

49. The administration will submit the proposed changes to the Financial Regulations and Rules to the UNICEF Executive Board at its September 1999 session. One of the changes will ensure consistency in the definition of programme expenditure.

IV. Recommendations that would require action by the General Assembly

50. The administration does not see any recommendation of the Board of Auditors that would require action by the General Assembly.